

May 5, 2000

**Mayor Sharon Sayles Belton
Council President Jackie Cherryhomes
Council Members
Citizens of Minneapolis
City of Minneapolis, Minnesota**

The Comprehensive Annual Financial Report (CAFR) of the City of Minneapolis, Minnesota (City) for the fiscal year ended December 31, 1999, as prepared by the Finance Department is hereby submitted.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The enclosed data is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and the results of operations of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The CAFR is presented in three sections: introductory, financial and statistical. The introductory section includes this letter of transmittal, an organizational chart, a list of elected officials, and a copy of the prior year's Certificate of Achievement for Excellence in Financial Reporting. The financial section includes the general purpose financial statements, the combining and individual fund and account group financial statements, supplementary information, as well as the independent auditor's report on these financial statements. The statistical section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Information related to this single audit, including the schedule of expenditures of federal awards, findings and recommendations, and the auditor's reports on internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, and grants, will be included in the management and compliance letters which are published at a later date.

The financial reporting entity (the City) includes all the funds and account groups of the primary government as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The government provides a full range of services including police and fire protection, health and family support services, maintenance of alleyways, bridges, streets and sewers, solid waste and recycling services, water services within and outside the City, building and housing code inspection services, licensing and permit services, and planning and zoning services.

Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the following organizations are reported within the combining and individual fund and account group financial statements: Board of Estimate and Taxation (BET), the Minneapolis Community Development Agency (MCDA), and the Municipal Building Commission (MBC).

Discretely presented component units are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and their results of operations. The following organizations are reported as discretely presented component units: the Minneapolis Library Board (Library Board) and the Minneapolis Park and Recreation Board (Park Board).

GOVERNMENTAL STRUCTURE, LOCAL ECONOMIC CONDITION AND OUTLOOK

Minneapolis is the largest city in Minnesota and the center of finance, industry, trade, and transportation for the Upper Midwest. The City was incorporated in 1867 and the City charter was adopted on November 2, 1920. The City has a Mayor-Council form of government, with 13 City Council Members from individual wards. The Mayor and the City Council are jointly responsible for preparation of the annual budget and preparation of the five-year capital improvement program.

Minneapolis is located in Hennepin County and covers an area of 59 square miles, including five square miles of inland water. The City is home to 368,383 people (1990 census). Minneapolis continues to enjoy a robust economy and historic prosperity. The Minnesota Department of Economic Security estimated that the City's and the State's average unemployment rate for 1999 was 2.8 percent compared to the federal average unemployment rate of 4.2 percent.

The City's tax base has grown by 32% since 1994, downtown is thriving with millions of square feet of office space under construction representing over \$1 billion in investment, and the City's continued commercial and industrial growth has created new jobs and fueled the tax base. Millions of visitors are drawn to Minneapolis each year for its eclectic variety of culture, sports, entertainment and shopping. Minneapolis is known as "The City of Lakes" featuring 22 lakes and 170 parks. The Minneapolis park system is one of the City's most prized assets. The abundance of green space, lakes and trails are tranquil oases in the heart of the City. Minneapolis has 81 residential neighborhoods offering a broad range of housing to 161,000 households. Minneapolis has more than thirty theaters, the Guthrie Theater and the Children's Theatre Company are recognized as two of the country's best. The City boasts two world-class art museums and is home to the internationally acclaimed Minnesota Orchestra.

Minneapolis is a major regional financial, services and trade center. Long-term growth has matched the state and nation as finance and other service industries outpaced durable goods manufacturing. Service industries represent the largest economic section, followed by trade, government, finance, insurance, and real estate, and durable goods manufacturing. Durable goods manufacturing has experienced limited growth recently, but remains significant. Private investment growth has increased in both the downtown area and surrounding residential areas. Minneapolis is also a center for graphic arts, electronics and instruments as well as a transportation center and distribution point for the Upper Midwest. Major industries include machinery and metal fabricating, plastics, computers, and publishing. Minneapolis with seven hospitals and the University of Minnesota is a nationally known medical center and produces many high technology medical products.

Developments

Minneapolis continues to be a magnet for growth in the region and is enjoying a building boom. It is the largest office space market in the metropolitan area accounting for just over 40 percent of the private market multi-tenant office space in the region and is a center for arts, entertainment, retail and government activity. Minneapolis is one of the more active downtown office markets in the country. Vacancy in Class A properties (new, large downtown office buildings) remains very low, dropping from 4.3 percent in 1998 to 4.1 percent in 1999. Active leasing in Class B buildings (seasoned, mid-size downtown office buildings) has lowered the vacancy rate for this class of structure from 7.9 percent to 4.8 percent in 1999. Major downtown construction projects include three major office tower developments, an office retail complex, and a major new parking facility along with numerous other smaller projects.

In addition to the boom in office development downtown, large numbers of other projects are underway in the neighborhoods. Two new schools have been built on the north side with two more planned for the next few years to accommodate anticipated increases in the number of students. Along Humboldt Avenue North an ambitious project is underway that will include significant housing redevelopment along a new greenway. Several large residential projects

have been completed on the east bank surrounding the University of Minnesota. Property development is also booming on the riverfront.

The north Mississippi riverfront is Minneapolis' fastest-growing residential neighborhood with about 1,000 new housing units going up in a five-block area. They include subsidized and market-rate apartments, starter townhouses, luxury townhouses and condos as well as an extended-stay hotel. Phase II construction of River Station (330 housing units) was started in the spring of 1999 along North First Street; ground was broken for 96 units of new housing on the River Road "Downriver Site;" construction on the North Star Lofts Building (36 condo units) on Portland Avenue was completed, and the ground breaking for the Stone Arch Lofts and neighboring Washburn A Mill was held in September of 1999.

Future Developments

Plans to redevelop the upper Mississippi riverfront are underway for a \$19 million renovation of the historic Grain Belt brewery complex which envisions refurbishing the buildings for architectural offices and housing nearby. Development plans are on the horizon for the eastern part of downtown Minneapolis in the historic Mill District Plan to build: four-story buildings lining the streets east of Portland Avenue between S. 2nd Street and Washington Avenue with residential lofts and scattered commercial space, a new building east of the Washburn-Crosby Mill complex with a restaurant, rental lofts and retail space, a building on Washington Avenue with live/work lofts – a relatively new concept in the City, and another building with rental lofts. Substantial planning efforts are underway along the Hiawatha corridor in anticipation of the development of the Twin Cities first light rail line traveling from downtown to Minneapolis-St. Paul International Airport and the Mall of America. The light rail construction schedule anticipates full service in late 2003.

MAJOR INITIATIVES

Each year provides the City an opportunity to identify, address and resolve issues facing the community and its citizens. The City's major challenge is to provide the services needed to maintain the quality of life that has attracted considerable growth to the Minneapolis community. This year Minneapolis focused its city services to promote public safety and continue its neighborhood development.

Public safety has been a top priority for the City, and serious crime is down significantly. The City has worked hard at building a strong law enforcement team between the Police department, the City Attorney's Office and the District Court. For the second straight year, Minneapolis has seen a double-digit reduction in serious crime. In 1999 crime declined 11 percent which outpaced the seven percent average drop by cities of similar size. The City's greatest crime reduction achievement was the 19 percent decrease in homicides in 1999. Minneapolis experienced other dramatic crime reductions in 1999 including decreases of 30 percent in arson, 24 percent in burglaries, 14 percent in vehicle thefts, and 10 percent in larceny/thefts.

City policing entails much more than law enforcement and control of crime. Police are called upon to resolve family problems, deal with various other citizen conflicts, and to respond to other non-criminal emergencies, many of which pose a serious threat to persons and property. The Police department has a variety of crime prevention and problem solving programs that involve the community including:

- Block/Apartment Club Organizing
- Neighborhood Problem Solving
- National Night Out
- McGruff Houses
- Block Connections
- Personal Safety and Home Security Information
- Operation Identification
- Crime Prevention for Businesses
- Rental Property Owner Education

The vast majority of criminal incidents that the police handle come to the attention of the police through information provided by citizens. Citizen cooperation with the police is the vital link for effective order maintenance and crime control.

Citizen empowerment through neighborhood-based planning and priority setting is the heart of the Neighborhood Revitalization Program (NRP). The NRP is a nationally recognized unique effort to change the future of the City's neighborhoods, making them better places to live, work, learn and play. NRP is governed by a joint agreement among the City, the Minneapolis School Board, the Library Board, the Park Board, and Hennepin County. The agreement allows these agencies to share resources and encourages them to work together to implement neighborhood plans. Through collaboration with government and others, neighborhood residents organize together, gather information, prioritize needs, identify resources, and implement solutions that improve neighborhoods. The majority of the neighborhoods have formed voluntary partnerships that result in a single plan for several neighborhoods. These plans identify the visions, goals, objectives, and strategies that will address neighborhood priorities and direct the expenditure of NRP funds. The NRP has been involved in more than 1,100 projects scattered throughout the City as a result of plans created by citizens working together to address neighborhood and City priorities. To date the NRP has allocated approximately \$78.2 million to programs aimed at maintaining and improving the City's housing stock; \$27.2 million for economic activities throughout the City to improve commercial corridors and business development; \$13.7 million for park and recreation facility improvement projects; \$11.2 million for programs that create or improve services for families and children in neighborhoods; \$8 million for projects aimed at community building; \$6.7 million for projects designed to reduce crime and make neighborhoods safer; \$6.7 million for the improvement of school and library programs and facilities; \$6 million to improve transportation and transit services; and \$3.6 million for improvement projects aimed at improving the physical environment of the neighborhoods. These programs have helped build neighborhoods, redesign public services, increase governmental collaboration, and created a sense of community in Minneapolis.

Throughout 1999, major progress was made on other important programs and projects, among them: the expansion of the Convention Center, the approval of the New Central Library site, and the establishment of the Empowerment Zone Office and the Office of Cultural Affairs.

In April 1999, construction began on the Convention Center Expansion Project that will add 670,000 gross square feet of building area to the center's existing 800,000 gross square feet. The expansion project consists of the following additions: two exhibit halls, 63 meeting rooms, a 3,400 seat Plenary Hall (auditorium) located adjacent to the existing Ballroom, 34,000 square foot column-free pre-function lobby, a newly remodeled kitchen and mezzanine storage space. The showpiece of the expansion project is the Plenary Hall. This innovative presentation hall will be the first of its kind in the nation. The feature that makes it so unique is that it breaks into four separate, soundproof lecture halls in just five minutes. The upper three sections, in the back of the hall, will be positioned on turntables that rotate 180 degrees, creating three separate halls of 450 seats each, this leaves the main floor intact with a seating capacity of 2,000. The approved budget for this expansion project is \$212 million and a grand opening is planned for the end of 2001.

In 1999, a site was approved for the New Central Library. The New Central Library will enable the Minneapolis Public Library to continue to preserve and make accessible the Library's current 2.5 million item collection including specialized collections that are unique within the State. These unique collections support the in-depth research needs of libraries and people throughout the State. The New Central Library will also provide increased educational support through additional electronic resources and access to the Internet, specialized study facilities and increased children's collections and programming. People throughout Minnesota use the Central Library's collections because of their breadth, historic and unique nature. Examples of collections used by outstate patrons include the Children's Historic and Folklore Collection, periodicals, and the Special Collections. The Special Collections and many priceless treasures will be properly housed in the New Central Library in an expanded and environmentally controlled area. A state-of-the-art Planetarium and science classroom will serve students. The New Library will accommodate projected growth to 3 million items, the majority of the collection will be on open shelves, and a technologically advanced building will improve efficiency, enabling staff to focus on helping library users. Total project costs are estimated to be approximately \$121.3 million with proposed funding of primarily local sources with private contributions and State of Minnesota funding.

In January 1999, Minneapolis received the federal designation as an Empowerment Zone (EZ) for its urban challenges in areas with high concentration of poverty and high racial income disparities. Thus, the Minneapolis Empowerment

Zone Office was created. The EZ designation will help provide revitalization assistance to these neighborhoods and more than 49,000 residents and business people. An EZ partnership was formed that includes representation from neighborhoods, businesses, nonprofit organizations, foundations, faith organizations, the education community, and state and local governments to bring the current economic growth and prosperity to the City's most distressed neighborhoods by creating thousands of new jobs, making neighborhoods and residents self-sufficient, expanding the tax base, providing jobs for the unemployed, creating affordable housing, and laying the foundations of a sustainable community.

The three Empowerment Zone demonstration projects are: the Great Lake Center, Near North Redevelopment Project, and the South East Industrial Area. The Great Lake Center, the former Sears complex, will undergo a complete rebirth and will become a mixed-use facility with office space, light industrial space, adult education, daycare and job training spaces, and retail space. The total project investment is expected to exceed \$80 million. The Near North Redevelopment Project is designed to rebuild a community that includes new, mixed-income housing with parks, public amenities and businesses that will support a healthier, more livable, vibrant and economically diverse neighborhood. Key redevelopment features include: a total investment of more than \$135 million, 700-900 new rental and owner-occupied housing units, integrated commercial uses and community services, new parks, roads and related infrastructure. The South East Industrial Area was home to national railroads, and grain and industrial manufacturers. As industries evolved, many abandoned the area leaving only unsightly relics of the past. This site will offer vast opportunities for businesses looking to expand or for those prepared to enter the market. This area provides a unique opportunity to redevelop 700 contiguous acres.

In late 1999, the Office of Cultural Affairs was established to create a framework for partnerships by building upon existing artistic excellence and demonstrated commitment by public agencies, businesses, schools, artists and arts organization. This office will promote and coordinate cultural citywide events and programs for the City. The purpose of the Office is to strengthen City programs to support the arts, to coordinate community action to foster artists, art institutions and public art, to educate the public, business and government regarding the significant economic benefit from the arts, and to work to increase economic benefits in the City.

FINANCIAL INFORMATION

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable but not absolute assurance regarding: (1) safeguarding of assets against loss from unauthorized use or disposition and (2) reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes: (1) the cost of control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of the proper recording of financial transactions. As a recipient of federal and state financial assistance, the City is responsible for ensuring that adequate internal controls exist to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management and the Internal Auditor. As part of the City's single audit, tests are made to determine the adequacy of the internal controls, including that portion related to federal awards. Tests are also conducted to determine that the City has complied with applicable laws and regulations.

In addition, the City maintains budgetary controls to ensure compliance with the budget approved by the City Council. Activities of the general fund and the special revenue funds are included in the budget. Capital project funds adopt project-length budgets and budgetary control for debt service funds is achieved through the bond indenture provisions. The legal level of control is at the department level within a fund. The City Coordinator's Office and the Public Works Department are considered to be legal levels of budgetary control within a fund even though budgetary data is presented at the department level within the Coordinator's Office and the division level within the Public Works department.

GENERAL GOVERNMENT FUNCTIONS

The general government functions of the primary government consist of the general fund, the special revenue funds, and the debt service funds.

General fund

The following schedule presents the General Fund revenues and operating transfers in for the fiscal year ended December 31, 1999, and the comparative amounts for 1998:

General Fund Revenues and Operating Transfers In For the Years Ended December 31, 1999 and December 31, 1998

| | <u>1999</u> | <u>1998</u> | <u>Increase/ (Decrease) Amount</u> | <u>Increase/ (Decrease) Percent</u> |
|---|----------------|----------------|--|---|
| <u>Revenues and Transfers (dollar amounts in thousands)</u> | | | | |
| Taxes | \$ 85,978 | \$ 85,714 | \$ 264 | 0.31% |
| Licenses and permits | 16,938 | 15,522 | 1,416 | 9.12% |
| Intergovernmental revenues | 89,219 | 89,322 | (103) | -0.12% |
| Charges for services and sales | 27,579 | 20,044 | 7,535 | 37.59% |
| Fines and forfeits | 5,957 | 6,321 | (364) | -5.76% |
| Special assessments | 2,950 | 2,324 | 626 | 26.94% |
| Interest | 1,200 | 2,766 | (1,566) | -56.62% |
| Miscellaneous | 959 | 811 | 148 | 18.25% |
| Total | <u>230,780</u> | <u>222,824</u> | <u>7,956</u> | |

Charges for services and sales increased by \$7.5 million in 1999, this category of revenue includes charges for inspection services, public health laboratory services, public works external billings, General Fund's 3.5% overhead charges collected from other funds, and related operating transfers. This large increase in revenues is due to increased operating transfers of \$5.0 million from the Sewer Rental Enterprise fund and the Municipal Parking Enterprise fund for street sweeping activities. In 1999, the General Fund's overhead revenues increased by \$2.5 million as a result of increased expenditure activity in the capital projects funds.

Special assessment revenues increased by 27% in 1999, the Public Works department and the Inspections department collect these revenues. The increase in revenues resulted from increased inspection related special assessments of \$260,000 for tree removal, boarded buildings, debris removal, weed removal and demolition and increased Public Works related special assessments of \$210,000 for utility cuts.

Interest income decreased by 57% primarily as a result of reporting investments at fair market value per Governmental Accounting Standards Board (GASB) Statement No. 31. In 1999, the City recognized a net unrealized loss on investments of \$282,000. The City will not realize losses on these investments.

The following schedule presents the General Fund expenditures and operating transfers out for the fiscal year ended December 31, 1999, and the comparative amounts for 1998:

**General Fund Expenditures and Operating Transfers Out
For the Years Ended December 31, 1999 and December 31, 1998**

| | | | Increase/ (Decrease) | Increase/ (Decrease) |
|--|--------------------|--------------------|---------------------------------|---------------------------------|
| | <u>1999</u> | <u>1998</u> | <u>Amount</u> | <u>Percent</u> |
| <u>Expenditures and Transfers (in thousands)</u> | | | | |
| General Government | \$ 43,441 | 42,873 | 568 | 1.32% |
| Public Safety | 136,945 | 138,540 | (1,595) | -1.15% |
| Highways and Streets | 39,157 | 36,568 | 2,589 | 7.08% |
| Health and Welfare | 3,591 | 3,774 | (183) | -4.85% |
| Economic Development | 100 | 100 | - | 0.00% |
| Culture and Recreation | 312 | 312 | - | 0.00% |
| Total | <u>223,546</u> | <u>222,167</u> | <u>1,379</u> | |

The Highways and Streets expenditures increased by \$2.6 million due mainly to increased expenditures in the Public Works department Snow and Ice Control area and the Public Works Transportation division. In 1999, the City issued five snow emergencies, increased snow and ice removal activities and spent an additional \$1.5 million on Streets and Malls. The Transportation Division expenditures increased by \$600,000 in 1999. Transportation expenditures have steadily increased for the past several years due to capital projects adding street lighting and signals to the system.

The General Fund's fund balance increased by \$7.2 million as a result of increased revenues and expenditures below budget in 1999. It is a financial goal of the City to maintain a ten percent reserve in the General Fund. In 1999, the General Fund met this requirement and exceeded it by \$6.2 million, thus, the fund balance designation of \$6.2 million for property tax relief.

Special Revenue funds

The City has eleven special revenue funds that are used to account for the proceeds of specific revenue sources which are restricted to expenditures for specified purposes. Taxes and intergovernmental revenues were strong in 1999. The financial position of the special revenue funds improved dramatically in 1999 as fund balance for all special revenue funds increased by \$39 million, the largest fund balance increase was in the Community Development Agency Special Revenue fund which increased by \$33 million.

The Convention Center Special Revenue fund accounts for the maintenance and operation of a City owned convention center and the related sales tax activities. The Minneapolis Convention Center was created as an investment to foster and generate economic growth and vitality by providing facilities and services for conventions, trade shows, exhibits, meetings, cultural, religious and sporting events; all of which benefit and showcase Minneapolis. In 1999, the Convention Center held 581 events with a total attendance of 995,258.

Local sales taxes support the Convention Center and taxes of \$38 million were collected in 1999 (an increase of 6 percent), approximately \$29 million was transferred to debt service or enterprise funds for related debt. The tax rates and collection amounts for 1999 were:

- 1) Sales tax of 0.5 percent applied citywide - \$26 million
- 2) Lodging tax of 2 percent applied to motels and hotels of 50 units or more - \$2 million
- 3) Food and liquor taxes of 3 percent, each, applied to establishments in the core downtown area - \$10 million.

Debt Service funds

The City's debt service funds include the Minneapolis Community Development Agency, the Development Fund, the General Debt Service Fund, and the Special Assessment Fund. The financial position of the debt service funds improved significantly in 1999. Fund balance in the Development Fund increased by \$1.9 million, fund balance in the General Debt Service Fund increased by \$1.4 million, and fund balance in the Community Development Agency Fund and the Special Assessment Fund increased by \$1.1 million, each.

Enterprise Operations

The City's enterprise operations include the following funds: Community Development Agency, Municipal Parking, River Terminal, Sewer Rental, Solid Waste and Recycling, and Water Works.

Community Development Agency

Activities of this fund include various low-interest housing programs, as well as a program in which revenue bonds are issued to finance economic development projects. A fairly new activity of this fund involves financing from the Federal Home Loan Bank (FHLB). The FHLB financing is used to provide loans to Minneapolis' businesses for the construction of capital assets. A portion of the interest on the loans is provided to employees of the businesses for down payment and closing-cost assistance to purchase homes in the City. The fund had operating income of \$7.5 million in 1999, and at year-end the fund's retained earnings were \$19.9 million, a decrease of \$1.7 million as compared to 1998.

Municipal Parking

This fund accounts for the operation and maintenance of parking ramps, lots, on-street parking, a municipal impound lot, and traffic/parking control. The City owns 13 parking ramps, ten surface parking lots, and manages three ramps owned by the Minnesota Department of Transportation. Altogether there are 20,264 parking spaces and 6,000 meters under management. Some of the ramps contain leased space for commercial facilities as well. During 1999, \$1.3 million was spent on ramp maintenance to keep the ramps safe and up-to-date. The fund had operating income of \$11.4 million and retained earnings of \$11 million at December 31, 1999, an increase in retained earnings of \$4 million. Construction was completed in 1999 on the Hennepin at 10th Ramp and on the public parking lot at Lyndale Avenue and Lake Street. Construction continued on the Hawthorne Transportation Center that will provide 990 parking spaces. A municipal parking ramp on the downtown Target store site will have 850 spaces. Construction on this ramp began in the fall of 1999 and will be completed by mid 2001. A municipal ramp at 10th Avenue North and Washington Avenue will open in July 2000, which will provide 645 spaces.

River Terminal

This fund accounts for the operation of a public terminal facility located on the Mississippi River. The facility is owned by the City and is managed by an operator under contract with the City as administered by the MCDA. During 1999, 470 barges were handled with such commodities as fertilizers, grain, coal, salt, steel, twine, sand, pipe, sugar beet shreds, and aggregate. Total tonnage shipped (in or out) for the year was 1.06 million tons with 705,000 tons of that shipped by barge. The MCDA transferred \$500,000 to this fund from its capital projects fund in support of debt service for the river terminal facility. The final debt service payment on outstanding bonds supporting this facility was made in 1999.

Sewer Rental

As a result of the Metropolitan Reorganization Act passed by the 1994 Minnesota Legislature, the Metropolitan Waste Control Commission (MWCC) on July 1, 1994, became an operating function of the Metropolitan Council and is known as Metropolitan Council Environmental Services (MCES). On January 1, 1970, the MCES assumed ownership of local government sewage interceptor and treatment facilities and credited each municipality with an amount equal to the current value of their facilities. The current value plus interest at 4 percent per annum was spread over 30 years and the annual credit is approximately \$1.4 million and will expire at the end of the year 2000. This activity is reflected in the Sewer Rental fund. This fund also accounts for storm water management activities including the Combined Sewer Overflow (CSO) Program, which separates the remaining storm sewer lines that are connected to sanitary sewer lines. During 1998, the City embarked on a \$72 million, nine-year, flood control program. This program targets specific areas in the City and creates holding ponds and additional storm drains that are designed to mitigate the effects of flash floods. The City Council adopted a sewage rate increase of six percent effective January 1, 1999. Rate increases were

put in place to provide financing for major capital improvements. Capital expenditures during 1999 for the Flood Mitigation and CSO programs totaled \$18.4 million. The fund had operating income of \$13.5 million in 1999 as compared to \$11.3 million in 1998. Revenues for sewage service increased by \$650,000 and operating expenses decreased by \$1.5 million. The fund had retained earnings of \$30.4 million at December 31, 1999.

Solid Waste and Recycling

This fund accounts for the solid waste collection and disposal/recycling activities of the City including the weekly trash and yard waste pickup, biweekly recycling pickup and the operation of a solid waste transfer station for over 108,000 households. The Public Works department also provides “clean city” activities such as neighborhood clean sweeps, litter and graffiti removal and litter control in business districts. City crews provide approximately one-half of the solid waste collection services and the other half of the services are provided through a contract with a consortium of companies specializing in waste collection. There were no rate increases in 1999 for solid waste and recycling services. The fund had an operating loss of \$429,000 in 1999, and at year-end the fund’s retained earnings were \$5.4 million, a decrease of \$467,000 as compared to 1998.

Water Works

This fund accounts for the operation and maintenance of a water delivery system for the City and several suburban city customers. The City’s water delivery systems are capable of providing 180 million gallons of treated water daily. In 1999, the City sold water directly to seven cities including Bloomington, Columbia Heights, Hilltop, Golden Valley, New Hope, Crystal and Edina. In 1998, the City began two, five-year programs, the Supervisor Control and Data Acquisition (SCADA) and the Hilltop Reservoir. The SCADA program automates the water control system from one point so that all gates, pumps, monitors, and controls will be in one controlled area. This makes the operation and water delivery system more efficient and cost effective. The Hilltop program is a 34 million gallon finished water reservoir. The City council adopted a water rate increase of seven percent effective January 1, 1999. Rate increases were put in place to provide financing for major capital improvements. The fund had operating income of \$7.3 million as compared to \$8.7 million in 1998, retained earnings at December 31, 1999, were \$63.4 million, an increase of \$2.4 million as compared to 1998.

Internal Service Operations

The City’s internal service operations include the following funds: Engineering Materials and Testing, Intergovernmental Services, Lands and Buildings, Permanent Improvement Equipment, Public Works Stores, and Self-Insurance. The internal service funds continue to be a serious financial concern, four of the six funds had material retained earnings deficits at year-end. The City has started to develop financial work-out plans for these funds to alleviate the cash deficits and to eliminate the operating deficits. As part of the 2000 budget, an additional \$2 million of General Fund revenue was identified to cover payments to the Internal Service funds.

Engineering Materials and Testing

This fund accounts for the operations of the City’s asphalt plant and the Engineering Materials Testing operations. The asphalt plant produces high quality bituminous products in a cost effective and timely manner for the Public Works Department’s construction and maintenance operations. The plant also provides a disposal site for rubble asphalt pavement generated from construction projects which ultimately reduces disposal fees and trucking costs. The plant recycles this material into new bituminous mixes enabling favorable pricing of the finished product. For 1999, the fund had an operating loss of \$310,000 as compared to the 1998 operating loss of \$186,000. Retained earnings at December 31, 1999, decreased by \$276,000 to \$1.7 million.

Intergovernmental Services

This fund accounts for the operations of Information and Technology Services (ITS) and the City Clerk’s printing and central mailing services. ITS is responsible for computers systems, hardware, software, networks, support, training and operation of the telecommunication functions of the City. During 1999, ITS ensured the integrity of the network, infrastructure, and equipment to ensure Year 2000 (Y2K) compliance. In 1999 the fund had an operating loss of \$10.6 million and at year-end the fund had a deficit in retained earnings of \$9.6 million.

Lands and Buildings

This fund accounts for the physical management and maintenance of fire stations, police precinct buildings, the Public Service Center, and various other office locations. It also accounts for the coordination and management of special properties. At year-end the fund had an operating loss of \$558,000 and the fund had a deficit in retained earnings of \$2.0 million.

Permanent Improvement Equipment

This fund accounts for the ownership and operation of a fleet of approximately 1,200 pieces of motorized equipment and vehicles, 400 vehicle accessories, and over 3,000 pieces of radio communication equipment representing a total investment of \$43.2 million. The fund operates as a rental agent to various departments. The Royalston Maintenance facility representing an investment of about \$10.6 million was completed, and the construction for the Currie Maintenance facility is on schedule. Administrative and maintenance areas of the Currie facility will be occupied in the first quarter of 2000, and completion of the facility is expected by the fall of 2000. In 1999, the fund experienced an operating loss of \$3.9 million and the fund had a deficit in retained earnings of \$1.9 million.

Public Works Stores

This fund accounts for the centralized procurement, warehousing, and distribution of stocked inventory items and the purchase of special goods and services. The mission of the Central Stores operation is to provide items in a cost effective and timely manner through bulk purchasing and to ensure that all products comply with City standards and safety requirements. This fund also has a Traffic Stores operation that provides stocked inventory items for assembly of specialized equipment within the Public Works Transportation Division. Other departments utilize these services when unique items or equipment are needed. The fund had an operating loss of \$28,000 in 1999 and year-end retained earnings of \$225,000.

Self-Insurance

This fund accounts for employee medical, dental, and life insurance benefit programs and the programs' administrative costs. The fund also accounts for occupational health services, specifically employment services, severance payments to employees who have retired or resigned and who meet minimum eligibility requirements, a tort liability program, and a workers' compensation program. The City periodically engages an actuary to review the City's self-insurance programs. Such reviews estimate outstanding losses, project the ultimate losses and recommend the overall funding each year. Internal insurance premiums, in lieu of operating transfers, were applied in 1999. In 1999, the fund experienced an operating loss of \$7.7 million and a deficit retained earnings of \$32.3 million.

Fiduciary Operations

The City has three agency funds to account for assets held by the City as an agent for the individual, organization, and/or fund. These funds are the Community Development Agency fund, the Minneapolis Agency fund, and the Skyway Debt Service fund. The Community Development Agency fund includes the ticket proceeds for two theatres owned by the MCDA and operated by a manager under contract. At year-end there were \$1.4 million in ticket proceeds recorded as deposits held for others for future events with \$0.1 million of that amount advanced to promoters of major productions but secured by letters of credit.

Debt Administration

At December 31, 1999, the City had a number of debt issues outstanding. These issues included \$88.5 million general obligation bonds supported by the property tax levy, \$624.4 million general obligation self-supporting bonds, \$39.4 million general obligation special assessment bonds, \$216.8 million general obligation tax increment bonds, \$82.4 million General Agency Reserve Fund System bonds, and \$158.9 million of revenue bonds. The bonds pay interest at rates ranging from 2% to 11% and mature at various dates to the year 2028. In 1999, the City issued \$221.4 million of general obligation bonds to finance the construction of two parking ramps, the expansion of the Convention Center, the acquisition and construction of fleet maintenance facilities, the acquisition of fleet vehicles, a variety of public works projects, library improvements, park improvements and various other purposes. Revenue bonds of \$2.9 million were issued in 1999 for a variety of redevelopment projects.

The City has maintained its AAA bond rating from Moody's Investor Service and Standard and Poor's Corporation; and in 1999 the City received a third AAA bond rating from Fitch IBCA, Inc. The long-term AAA rating reflects the city's prominent position as the economic anchor to the prosperous Twin Cities metropolitan area.

Two major indicators of the City's debt position for municipal managers, citizens and investors are the ratio of net bonded debt to market valuation (1999 market value of \$16,980,768,000) and the amount of bonded debt per capita (1999 population 368,383).

| General Obligation Bonds | Gross Debt | Ratio of Debt | Debt per |
|---------------------------------|---------------------------|------------------------|-----------------|
| | Less Sinking Funds | to Market Value | Capita |
| Property tax supported | \$ 67,691,000 | 0.4% | \$ 184 |
| Self supporting | \$ 838,346,000 | 4.9% | \$ 2,276 |
| Overlapping jurisdictions | \$ 247,089,000 | 1.5% | \$ 671 |
| | <u>\$ 1,153,126,000</u> | <u>6.8%</u> | <u>\$ 3,131</u> |

The City participates in a Joint Debt Committee to promote the exchange of information concerning the debt issuance plans of the participating governments. The City, the Minneapolis Special School District No. 1, and Hennepin County share in whole or in part the same property tax base. The actions of one government affect the same taxpayers. Therefore, to the degree that the governments are aware of each jurisdiction's capital financing plans means that the issuance of debt may be managed so as to minimize the impact on the property taxpayer. The Joint Debt Committee meets several times per year to develop a better perspective on the debt issuance levels for participating governments and to coordinate the amount and timing of future debt issues.

The following table presents the general obligation bonds issued during the past three years:

**General Obligation Bonds
Issued the Last Three Years**

| Date of Issue | Amount (in thousands) | Purpose | Average Life in Years | Interest Rate | Interest per Borrowed Dollar |
|----------------------|------------------------------|----------------------|------------------------------|----------------------|-------------------------------------|
| 6/19/97 | \$ 8,500 | Fleet and facilities | 5.5 | Variable * | \$ - |
| 6/19/97 | 24,000 | Multi-purpose | 6.1 | Variable * | - |
| 7/1/97 | 2,965 | Assessment | 9.9 | 5.02% | 0.50 |
| 2/1/98 | 18,530 | Refunding | 3.7 | 3.67% | 0.17 |
| 6/25/98 | 38,000 | Multi-purpose | 4.5 | Variable * | - |
| 7/1/98 | 15,000 | Multi-purpose | 6.5 | 4.32% | 0.29 |
| 8/1/98 | 2,640 | Development | 12.3 | Variable * | - |
| 11/1/98 | 3,000 | Multi-purpose | 4 | 4.02% | 0.15 |
| 11/1/98 | 61,400 | Refunding | 13 | 4.67% | 0.63 |
| 11/1/98 | 19,200 | Parking Ramp | 23.3 | 4.91% | 1.10 |
| 2/25/99 | 27,000 | Parking Ramp | 8.8 | Variable * | - |
| 6/24/99 | 88,400 | Convention Center | 8.9 | Variable * | - |
| 6/24/99 | 8,600 | Fleet and facilities | 5.5 | Variable * | - |
| 6/24/99 | 67,250 | Multi-purpose | 3 | 4.42% | 0.15 |
| 6/24/99 | 16,150 | Parking Ramp | 17.4 | 5.21% | 0.88 |
| 6/24/99 | 14,000 | Parking Ramp | 12.3 | 5.05% | 0.61 |

* The variable rate is set once a week by the Remarketing Agent to enable the bonds to be sold at par in the secondary market. Rates for 1999 ranged from 2 percent to 5.4 percent.

The Notes to the Financial Statements, the Supplementary Information and the Statistical Section of this CAFR present additional information about the debt of the City.

Cash Management Policies and Practices

During the year cash was invested in certificates of deposit, obligations of the U.S. Treasury, commercial paper, various agency mortgage pools, taxable municipal obligations, and money market funds. The average return on investments during the year was six percent. The City effectively pools cash for investment management purposes and distributes investment income daily to funds that are designated to earn interest. The City also applies a working capital charge to proprietary funds that may periodically have a deficit cash balance.

The City's investment policy is to ensure that all cash received by the City is promptly recorded, deposited, and invested in a manner that assures safety and minimizes credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by Federal Deposit Insurance or collateral was provided. The market value of collateral pledged must equal 110 percent of deposits not covered by insurance. All collateral on deposits was held by the Federal Reserve Bank of Minneapolis in the name of the City or the MCDA. The Notes to the Financial Statements present the City's investment holdings by security type and risk category. Eighty-eight percent of the investments held by the City at December 31, 1999, were classified in the category of lowest custodial credit risk as defined by the GASB. The remaining investments generally were held by the counterparty's trust department or agent in the City's name.

Risk Management

The City has a Risk Management and Claims Division, within the Finance Department, that provides a city-wide risk management program. The Division develops insurance specifications for bids, contracts, request for proposals, and purchase orders; the division works with departments on compliance with federal, state, and local legislation and rules, the division conducts investigations and implements cost saving strategies for Workers' Compensation claims, motor vehicle incidents with damages, property damage and personal injuries under \$25,000 of exposure, third party claims and any claim that is made against the City.

Various programs and plans have been designed and/or developed to reduce the potential risk to the City including a comprehensive employee health and safety program, a strategy to reduce tort liability exposure, a financial plan to minimize losses, and a strategy to reduce the frequency of injuries and illnesses and the cost of workers' compensation.

The City accounts for its Risk Management activities as an internal service fund and charges the operating funds annually for the anticipated actuarially projected ultimate incurred claims.

OTHER INFORMATION

Independent Audit

State law requires the State of Minnesota Office of the State Auditor to perform an annual audit of the City. This requirement has been met. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and the related U.S. Office of Management and Budget Circular A-133. Government Auditing Standards, issued by the Comptroller General of the United States, that are applicable to financial audits and generally accepted auditing standards were used by the auditors in conducting the engagement. The auditor's report on the general purpose financial statements for the year ended December 31, 1999, is included in the financial section of this CAFR.

The Office of the State Auditor will issue a management and compliance letter covering the review of the City's internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, and grants. The management and compliance letter will not modify or affect, in any way, this report. Copies of this letter may be obtained from the City's Finance Officer.

Awards


The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the year ended December 31, 1998. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. To be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. This was the thirtieth consecutive year that the City has received this award. We believe that the 1999 CAFR continues to conform to the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

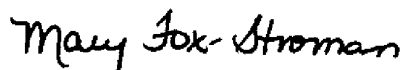
Acknowledgments

The preparation of this report could not have been accomplished without the efficient and dedicated service of the highly qualified staff of the Finance Department, the Library Board, the MCDA, and the Park Board. We would like to thank all personnel who assisted and contributed to the preparation of this report. Their cooperation and continued support is necessary and appreciated. We acknowledge the thorough and professional manner in which the independent audit was conducted by the State of Minnesota Office of the State Auditor.

Respectfully submitted,



John Moir
Finance Officer



Mary Fox-Stroman, CPA
Assistant Finance Officer

